Weekly Economic Review

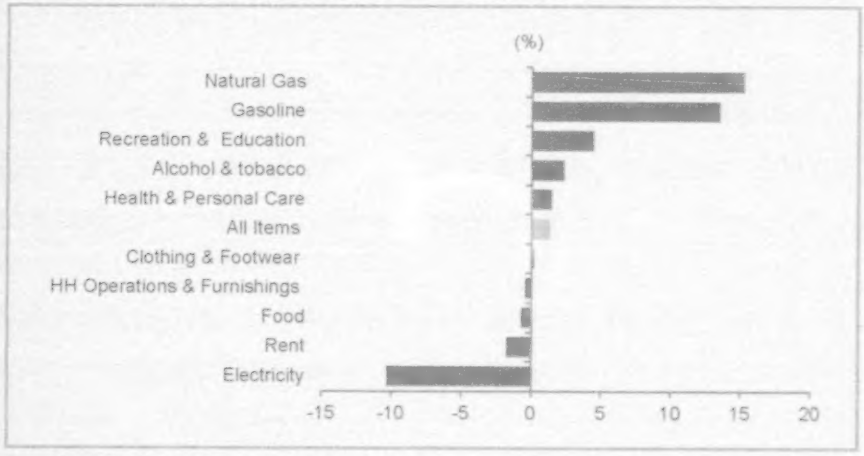
Inflation weakens in March

Consumer Price Index

Moderating energy prices dampen inflation

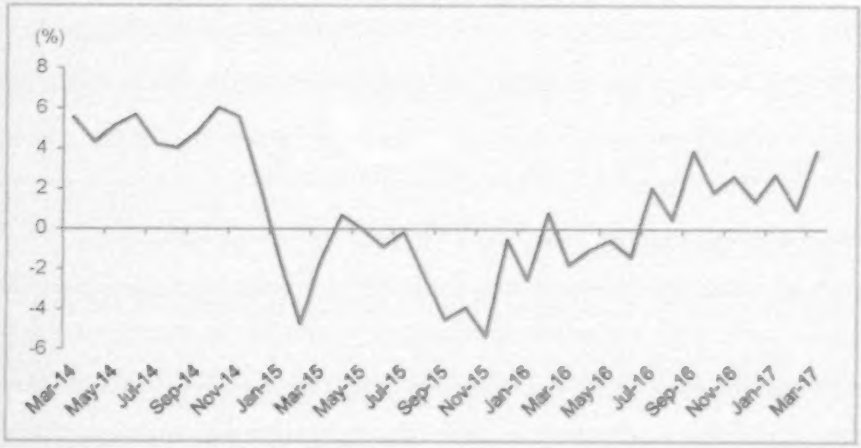
Alberta's inflation eased further in March. The consumer price index rose 1.3% year-over-year (y/y), down from 2.2% in February. The decline was mainly due to slower growth in natural gas, electricity, and gasoline prices from 18.1% y/y in February to 7.6% y/y in March. Nonetheless, energy prices remain significantly higher than a year ago and are major contributors to annual inflation (Chart 1). In addition to moderating energy prices, lower prices for food (-0.7% y/y), rent (-1.7% y/y) and homeowner replacement cost (-1.1% y/y) also held down inflation. Conversely, service inflation, which fell below 1% y/y in August 2016, has been picking up in recent months and was 1.7% y/y in March.

Chart 1: Energy prices remain primary source of inflation
Year-over-year growth in CPI by selected components



Source: Statistics Canada

Chart 2: Improvement in sales activity supports growth in house prices
Year-over-year growth in Alberta's average resale house prices



Source: Canadian Real Estate Association

Existing Home Sales

Home sales dip

Home sales in Alberta cooled in March following gains in the previous three months. Month-over-month (m/m), home sales fell 4.7% to 4,742 units but remain 12.7% higher than last year's level. Improving prices and sales in previous months have encouraged more listings, which grew for the second month in a row (+5.6% m/m). Despite slower sales and higher listings, average resale prices grew by 3.9% y/y, the strongest annual growth since November 2014 (Chart 2). Nationally, sales rose to reach an all-time high in March due to accelerating activity in Ontario.

Employment Insurance

EI claims holds steady

Employment Insurance (EI) claims stabilized this month following a three-month stretch of declines. The number of EI claims was little changed in February (+0.6% m/m) and remained sharply lower than last year's level (-24%y/y). This was due to ongoing declines in initial claims (-38.2% y/y) and slowing growth in renewal claims (+5.8% y/y) (Chart 3). With EI claims moderating along with improvement in Alberta's labour market, the number of Albertans receiving regular EI benefits fell for the second consecutive month (-3.6% m/m) to 88,500, the lowest level since June 2016. They remain high compared to historical levels.

Building Construction Investment

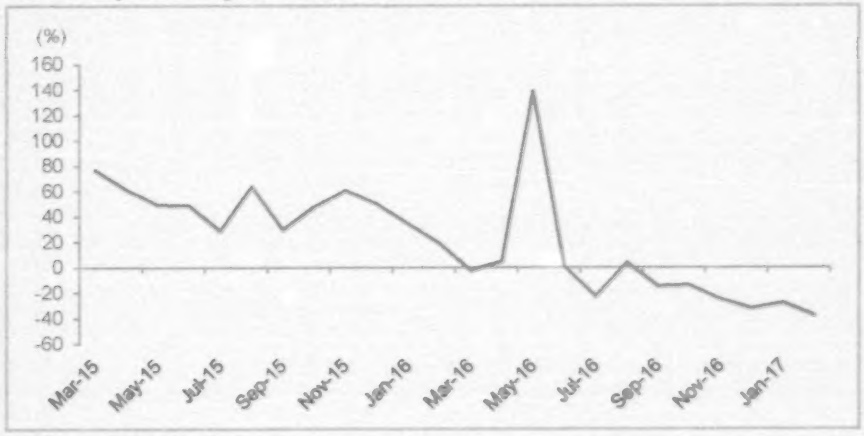
Residential and non-residential investment turn a corner

Investment in Alberta's non-residential building construction improved after seven quarters of consecutive declines. Non-residential investment grew by 1.1% quarter-over-quarter (q/q) to $2.5 billion in the first quarter of 2017 due to broad-based increases. Institutional and governmental investment continued to climb (+1.7% q/q), reflecting higher spending in nursing homes and health facilities. Investment in industrial (+1.1% q/q) and commercial projects (+0.8% q/q) also saw an uptick for the first time since early 2015 (Chart 4). On a regional basis, overall non-residential investment in Calgary remained weak (-1.0% q/q) while Edmonton posted one of the largest gains among census metropolitan areas (+2.3% q/q) , mostly due to higher spending on industrial projects. Compared to last year, non-residential investment in the province was still down (-5% y/y) as lower investment in industrial (-22% y/y) and commercial structures (-9% y/y) outweighed gains in institutional and governmental spending (+13% y/y).

New housing investment also appears to have bottomed out after reaching the lowest level in 5 years in January. Investment in new housing construction increased 8.0% to $605 million in February due to higher investment in all structures. On a year-over-year basis, investment remained weak (-13% y/y) but the declines continued to ease.

Chart 3: Receding initial claims pull down total EI claims

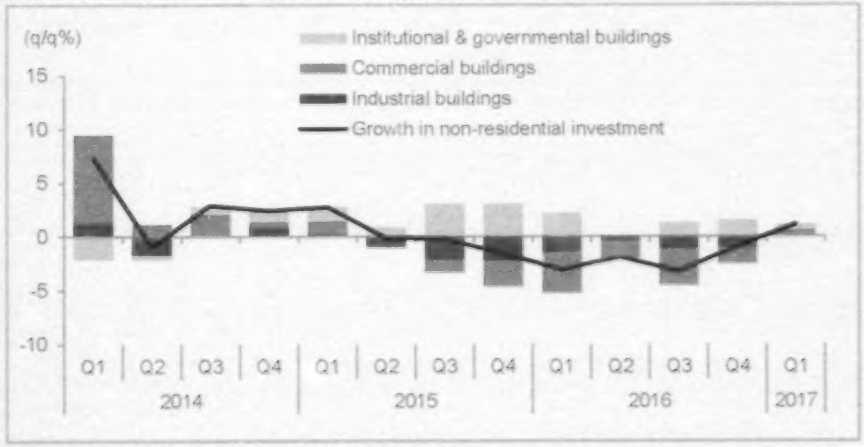
Year-over-year change in the number of initial EI claims



Source: Statistics Canada

Chart 4: Non-residential building investment improves

Contribution to quarter-over-quarter growth in non-residential investment*



Source: Statistics Canada; *seasonally adjusted

World Economic Outlook

Global growth gaining speed

Global economic growth is expected to accelerate this year. The International Monetary Fund (IMF) is projecting world economic growth to rise from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018, slightly above previous forecast. The improved outlook is due to better-than-expected economic growth in Europe and Asia as well as continuing expectation for higher US growth this year as consumer confidence, investment, manufacturing, and trade have all picked up. However, risks to the outlook remain high, including faster-than-expected hikes in US interest rates and protectionist policies in advanced economies. The IMF also projects Canada to grow by 1.9% in 2017; this is much lower than the Bank of Canada's recent growth forecast of 2.6% in 2017. The IMF points to a strengthening US outlook as a potential tailwind for the Canadian economy which could lead to an upward revision in their Canadian GDP growth forecast.

Contact

Kathleen Macaspac 780.427.8841

Please see the *Alberta Economy - Indicators at a Glance* for a snapshot of Alberta indicators.